Financial Services
Commission
of Ontario

Ontario

2014 STATEMENT OF PRIORITIES

FINANCIAL SERVICES COMMISSION OF ONTARIO

Message from the Chair and the Chief Executive Officer

Established under the Financial Services Commission of Ontario Act, 1997 (FSCO Act), FSCO regulates insurance companies and agents; pension plans; loan and trust companies; credit unions and caisses populaires; mortgage brokerages and administrators; co-operative corporations in Ontario; and service providers who invoice auto insurers for statutory accident benefits claims. FSCO is accountable to the Minister of Finance.

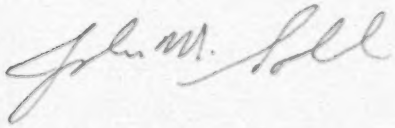
FSCO's legislative mandate is to provide regulatory services that protect the public interest and enhance public confidence in the sectors it regulates. As an organization, FSCO is committed to being a progressive and fair regulator, working with stakeholders to support a strong financial services industry, and protecting the interests of financial services consumers.

FSCO is comprised of a five-member Commission, the Superintendent of Financial Services and staff, and the Financial Services Tribunal. The Financial Services Tribunal is an expert adjudicative tribunal established under the FSCO Act. The Tribunal hears applications and appeals on regulatory decisions made or proposed by the Superintendent.

Section 11 of the FSCO Act requires that FSCO publish in The Ontario Gazette and deliver to the Minister of Finance by June 30 of each year a statement setting out FSCO's proposed priorities and the reasons for adopting these priorities.

This is FSCO's 17th Statement of Priorities. It outlines FSCO's and the Tribunal's priorities and planned initiatives for the coming year, and highlights FSCO's key accomplishments in the previous year.

Philip Howell
Chief Executive Officer &
Superintendent of Financial Services



John M. Solursh
Chair
Financial Services Commission of Ontario
Financial Services Tribunal

Introduction

FSCO is required to release a Statement of Priorities each year outlining its proposed activities. Following is this year's statement, along with highlighted accomplishments from last year. FSCO's approach to fulfilling its legislated regulatory responsibilities is outlined in greater detail in our Regulatory Framework document which is posted on the FSCO website. FSCO also reports back on its core activities through its annual report. In conducting its business, FSCO always seeks to protect consumer interests and enhance public confidence in the sectors it regulates.

FSCO's Core Activities

Regulatory Policy

FSCO advises the government on existing or potential risks and policy issues in the regulated sectors. All areas within FSCO work together to identify and define policy issues. Policy development is integral to public protection, determines resource allocation, and results from a collaborative effort that includes external consultations with stakeholders and the public.

Regulatory Coordination

FSCO promotes and plays an important role in coordinating regulatory efforts at a national level. Canadian regulators work together to coordinate activities, share information, proactively identify emerging trends and risks, look for harmonized approaches, reach consensus around solutions for common problems, and provide solutions and guidance applicable to multiple jurisdictions across the country. Coordination minimizes unnecessary duplication, potential delays related to regulatory processes, and regulatory costs through joint projects and resource sharing. FSCO works closely with other regulators, as needed, in order to achieve its legislative mandate.

Licensing and Registration

By law, individuals and businesses require licences from FSCO in order to conduct certain activities within the regulated sectors. Licensing ensures that only qualified and appropriate licensees conduct business with the public. Similarly, pension plans are required to be registered with FSCO. Licensing and registration allow for the supervision of the sectors in order to protect the public.

Filings and Applications

Once licensed or registered, regulated entities are required by law to submit information to FSCO on a regular basis. Certain transactions in the regulated sectors require FSCO's approval, and regulated entities must follow filing and application procedures to obtain approval. FSCO's ability to request information is a fundamental power and key regulatory tool. The information FSCO gathers at both the entity level and on an aggregate, systemic basis is used to develop proactive supervisory strategies and plans, including monitoring and compliance activities.

Monitoring and Compliance

Monitoring and compliance are important, ongoing supervisory activities. FSCO assesses whether regulated entities follow the law through compliance reviews. In addition to addressing specific cases of non-compliance, FSCO's focus is also on monitoring the degree of compliance in the regulated sectors as a whole. FSCO takes a risk-based approach to regulation, and is concerned with the overall potential negative impact that non-compliance cases have on regulatory outcomes.

Enforcement and Intervention

FSCO influences conduct in the regulated sectors through different strategies including, for example, education, moral suasion, partnering with stakeholders, compliance reviews, intervention, and ultimately enforcement. FSCO will employ the most appropriate enforcement action for entities that fail to comply with the law.

Alignment with Insurance Core Principles

The International Association of Insurance Supervisors' Insurance Core Principles prescribe the essential elements of a supervisory regime that provide an adequate level of policyholder protection and promote a financially sound insurance sector. FSCO aligns its insurance regulatory activities with the insurance core principles. In a review released earlier this year, the International Monetary Fund assessed FSCO as having a high level of observance with the insurance core principles. The International Monetary Fund also noted that FSCO has robust accountability frameworks in place, FSCO's licensing processes are in line with international best practices, and FSCO has a well-developed framework to combat fraud.

Strategies and Initiatives

To deliver its core regulatory services, FSCO sets high-level goals that are aligned with four broad strategies focused on effective delivery of its regulatory services to meet its regulatory responsibilities:

- Review and recommend changes to better mitigate risk
- Increase efficiency, effectiveness, and transparency
- Communicate, share knowledge, and engage stakeholders
- Coordinate with other Canadian regulators of the financial services industry

With these strategies, FSCO aims to improve the ways in which it regulates and delivers services to foster consumer protection in the financial services sectors and to protect the rights and benefits of pension plan members. FSCO's 2014 strategies and initiatives provide a snapshot of the work that FSCO is focusing on over the next year. FSCO recognizes that the financial services sector is a dynamic and fast-paced environment, and in addition to this year's priorities, FSCO will be ready to address any emerging regulatory needs in the future.

Strategy 1: Review and recommend changes to better mitigate risk

FSCO's risk-based regulatory approach allows it to allocate resources towards matters that pose the highest risks to consumers and pension plan members. FSCO will continue to strengthen its regulatory approach with a number of initiatives to mitigate risks in the financial services sector.

1.1 Licensing Business Systems and Business Practices of Service Providers

In the 2013 Ontario Budget, the government committed to take further action to tackle fraud in the auto insurance sector. Among other measures, the government expanded FSCO's mandate to include the licensing and regulation of the business systems and business practices of healthcare service providers that directly invoice auto insurers for statutory accident benefits. On June 1, 2014, FSCO launched a licensing regime to reduce fraudulent billing practices in the sector. Healthcare service providers will be required to be licensed as of December 1, 2014, in order to continue billing insurance companies directly.

1.2 Develop Minor Injury Treatment Protocol

The scientists and medical experts retained by FSCO to develop an evidence-based protocol are continuing their literature reviews. Ultimately, they will recommend a protocol to treat auto accident claimants who sustain minor injuries. The protocol will inform the Superintendent's consideration of a revised Minor Injury Guideline. A revised Minor Injury Guideline will be consistent with current and scientifically proven treatment for common injuries

resulting from motor vehicle accidents. This will reduce disputes about benefits, and improve care provided to claimants. The recommendations from the scientists and medical experts will be presented to the Superintendent at the end of 2014.

1.3 Support the Ministry of Finance in the implementation of a Cost and Rate Reduction Strategy for auto insurance

FSCO will support the government's implementation of the Auto Insurance Cost and Rate Reduction Strategy, utilizing the powers provided to the Superintendent in existing legislation.

1.4 Conduct life insurance and mortgage broker product suitability reviews

FSCO will undertake product suitability reviews of life insurance and mortgage broker practices at the point-of-sale. FSCO plans to assess how agents/brokers respond to the financial literacy needs of their clients, and evaluate the processes used by agents/brokers to provide advice to consumers.

Strategy 2: Increase efficiency, effectiveness & transparency

As part of FSCO's commitment to modernizing its regulatory services, FSCO is undertaking a number of reviews and service delivery improvements to keep pace with the changing financial services environment, and to promote cost-effective and efficient regulation.

2.1 Work with the Ministry of Finance on statutory and system reviews

In 2013, FSCO commenced a consolidated three year review of Part VI (Auto Insurance) of the Insurance Act, and related regulations. Once the review is complete, FSCO will submit a report to the Minister of Finance in Fall 2014. FSCO will also work with the Ministry of Finance to implement the recommendations from last year's five-year review of the Mortgage Brokerages, Lenders and Administrators Act, 2006. FSCO will assist the ministry in supporting the Minister of Finance's appointee with the five-year statutory review of the Credit Unions and Caisses Populaires Act, 1994. Additionally, FSCO will work with the Ministry of Finance as required to review insurance company solvency regulation.

2.2 Design and implement an information technology Enterprise Development Program

A new web-based information management platform will provide FSCO with the required tools to effectively regulate in an increasingly challenging financial services marketplace, while providing stakeholders with centralized access to the services they expect. The new system will also provide FSCO with comprehensive and centralized information on its regulatory activities and the regulated sectors. The web-based service will provide more accurate information to help FSCO undertake its risk-based approach, leading to increased efficiency and effectiveness. This is a multi-year initiative. The first phase of the new system was launched on June 1, 2014 as part of the licensing of the healthcare service providers sector.

2.3 Work with the Ministry of Finance on the Dispute Resolution System Review implementation

In 2013, the government appointed the Honourable J. Douglas Cunningham, Q.C. to review the FSCO dispute resolution system. In early 2014, Mr. Cunningham delivered the final report to the Minister with 28 recommendations on how to best deliver dispute resolution services. The government introduced Bill 171, Fighting Fraud and Reducing Automobile Insurance Rates Act, 2014 in the Legislature on March 4, 2014.

The proposed legislation included provisions that would move authority for the dispute resolution system from FSCO to the Ministry of the Attorney General's Licence Appeal Tribunal. Bill 171 did not pass before the Legislative Assembly was dissolved and the 2014 general election was called. If the bill is re-introduced, FSCO will work with the Ministry of Finance, as required, to assist in implementing proposed changes to the dispute resolution system.

2.4 Enhance auto insurance information and analysis

FSCO will enhance the use of automobile insurance data to simplify its regulatory process and collect data to forecast future trends, including:

- Examining factors contributing to cost changes in third-party liability bodily injury, and releasing a final report on the findings in 2014.
- Reviewing actuarial data to gauge the effect of the automobile insurance reforms, and studying the effect of the reforms on automobile insurance rate levels.
- Working with the General Insurance Statistical Agency to collect Ontario's 2013 auto insurance statistical data, and analyzing the data to monitor automobile insurance cost changes and to review the reasonableness of automobile insurance rates.
- Reviewing the Health Claims for Auto Insurance system to determine reports necessary to provide additional information on statutory accident benefits treatment trends.

2.5 Work with the Ministry of Finance on initiatives in the pension sector

Over the past year, pension reform has been a government priority and the government has put an emphasis on modernizing the retirement income system with a focus on innovation. It recently completed a consultation with stakeholders on how to implement Pooled Registered Pension Plans and announced its intention to consult on a framework for target benefit plans in Ontario. This consultation will focus initially on target benefits for multi-employer pension plans which will help in subsequently developing a framework for single-employer target benefit pension plans.

The government has also committed to making public-sector pension plans more sustainable and to introducing a conversion framework that would facilitate the conversion of single employer pension plans to a jointly sponsored model. Work has also been completed relating to the adequacy of retirement savings in Ontario and the government is considering the establishment of an Ontario Retirement Pension Plan to assist Ontarians in saving for their retirement.

FSCO will advise and support the ministry, as required, on the implementation of these new initiatives.

Strategy 3: Communicate, share knowledge, and engage stakeholders

To better communicate and share knowledge in the area of consumer protection, FSCO will implement an anti-fraud stakeholder engagement strategy, and engage consumers in the areas of financial literacy and fraud prevention.

3.1 Implement fraud awareness stakeholder engagement strategy

FSCO will work with insurance stakeholders and consumers to implement an anti-fraud awareness strategy, and provide important information to consumers on fraud in the insurance sector.

3.2 Provide information to consumers about fraud prevention

FSCO will provide valuable information to consumers about their rights and responsibilities when it comes to fraud prevention in the regulated sectors. FSCO aims to educate consumers about how they can help reduce fraud. FSCO will use a variety of tools including the use of social media to keep consumers better informed about anti-fraud activities.

3.3 Promote consumer access to financial literacy information

FSCO will promote access to educational materials for consumers, pension plan members, and youth to provide valuable information on how to increase their financial literacy when purchasing financial services products in the regulated sectors.

3.4 Review and implement requirements for usage-based auto insurance

FSCO will continue to work with the auto insurance

sector to encourage innovative technologies and ensure consumers are fairly treated as more companies implement voluntary usage-based auto insurance rate programs.

Strategy 4: Coordinate with other Canadian regulators in the financial services industry

Coordination with other Canadian regulators in the financial services industry is a hallmark of FSCO's regulatory approach. FSCO will work with other regulators to proactively identify emerging trends and risks, look for harmonized approaches, and provide solutions and guidance applicable to multiple jurisdictions across Canada.

4.1 Develop a harmonized national life agent licence qualification standard

FSCO will support a Canadian Insurance Services Regulatory Organizations' and Canadian Council of Insurance Regulators' initiative to develop harmonized standards for life insurance licence qualification. Implementation of the program is anticipated to be in January 2016.

4.2 Provide access to information on mortgage broker disciplinary action

FSCO will work with the Mortgage Broker Regulators' Council of Canada to publish information on disciplinary actions taken against mortgage brokers and agents across Canada in one online database.

4.3 Work with other regulators on common regulatory approaches to pensions issues

FSCO will participate in a number of initiatives undertaken by the Canadian Association of Pension Supervisory Authorities:

- Develop options, including de-risking strategies and examining new pension plan designs to address current risks in the defined benefits pension plan sector; engage policy makers in their jurisdictions; and develop standards for the treatment of new de-risking strategies and pension plan designs.
- Manage and coordinate the implementation of a new agreement to establish clear rules for the administration and regulation of multi-jurisdictional pension plans.
- Review and determine if revisions are necessary to the association's Guideline No.4 - Pension Plan Governance Guidelines and Self-Assessment Questionnaire.
- Support efforts related to the implementation of a multi-jurisdictional framework for Pooled Registered Pension Plans across Canada.

Highlights from 2013-14

FSCO's initiatives in the past year

Auto Insurance Cost and Rate Reduction Strategy implemented

FSCO assisted the Ministry of Finance in developing the legislation and regulations that shape the government's Auto Insurance Cost and Rate Reduction Strategy.

Improved disciplinary model to regulate insurance agents/adjusters

FSCO undertook stakeholder consultations and marshalled stakeholder support for a new insurance agents/adjusters disciplinary model aligned with modern regulatory practices in other sectors. Bill 171 had included provisions to introduce the new model, but did not pass before the Legislative Assembly was dissolved and the 2014 general election was called. If the bill is re-introduced, FSCO will work with the Ministry of Finance, as required, to support implementation.

High level of observance of international insurance core principles achieved

In 2013, the International Monetary Fund assessed Canada's capacity to adhere to the International Association of Insurance Supervisors' Insurance Core Principles. In its 2014 Financial Sector

Assessment Program reports, the International Monetary Fund's assessment demonstrated FSCO's compliance with, and a high level of observance of, the principles.

Financial hardship unlocking process streamlined

In 2014, legislative changes moved financial hardship unlocking program administration, to access locked-in retirements funds, from FSCO to financial institutions. FSCO and the Ministry of Finance worked with institutions to ensure a smooth transition.

One-window access provided to national insurance enforcement data

Canadian consumers and insurance industry participants now have access through the Canadian Insurance Regulators Disciplinary Actions database to the names of agents and firms disciplined by insurance regulators across Canada. The new database is designed to be a single point of access for enforcement decisions taken by multiple Canadian insurance regulators. FSCO played a leadership role in this joint initiative of the Canadian Insurance Services Regulatory Organizations and the Canadian Council of Insurance Regulators, which provides centralized and timely information on enforcement actions across multiple jurisdictions.

New anti-fraud resources disseminated to consumers

In June 2013, FSCO launched the Auto Insurance Fraud Hotline and Web Portal, where Ontarians can report auto insurance fraud. FSCO also partnered with the Toronto Police Service to launch a series of Public Service Announcements that raise consumer awareness about automobile insurance fraud.

Dispute resolution system

FSCO used the services of a private dispute resolution service provider to address the mediation backlog for Statutory Accident Benefits Schedule disputes. Various administrative changes were also implemented within FSCO's mediation process to increase the volume of mediations undertaken. The mediation backlog was eliminated in August 2013.

Return on Equity benchmark established

FSCO contracted two academics from the York University Schulich School of Business to review the Return on Equity (ROE) benchmark used in Ontario's auto insurance rate approval process. FSCO reviewed their recommendations and implemented a new ROE benchmark setting process that aligns the rate with cost of capital trends in the marketplace.

Mortgage broker legislation reviewed

In 2013, FSCO assisted the Ministry of Finance in supporting the Parliamentary Assistant to the Minister of Finance, Steven Del Duca to conduct a review of the Mortgage Brokerages, Lenders and Administrators Act, 2006. The review included public consultations and stakeholder roundtables on ways to strengthen the act.

Online platform on mortgage broker licensing requirements launched

FSCO worked with the Mortgage Broker Regulators' Council of Canada to launch an online platform in March 2014 that provides information on mortgage licensing requirements in multiple provinces.

Financial Services Tribunal

The Financial Services Tribunal is an expert adjudicative tribunal established under the FSCO Act. It is comprised of members appointed to the Tribunal on a part-time basis. The Tribunal is charged with hearing applications and appeals from certain decisions made or proposed by the Superintendent, or other authorized persons or entities, under a range of Ontario statutes governing financial services matters including:

- the Credit Unions and Caisses Populaires Act, 1994
- the Insurance Act
- the Loan and Trust Corporations Act
- the Mortgage Brokerages, Lenders and Administrators Act, 2006
- the Pension Benefits Act

The Tribunal's 2014 strategies and initiatives are as follows:

Strategy 1: Maintain a pool of qualified members to adjudicate hearings

Ensure appropriate expertise is available and allocated to staff panels appointed to hear Tribunal matters

The scope of matters qualifying for an application or appeal to the Tribunal continues to expand, resulting in an increasingly diverse workload for the Tribunal. The Tribunal Chair will work with the Ministry of Finance and the Public Appointments Secretariat towards the appointment of additional members to ensure appropriate expertise is available and allocated to staff panels appointed to hear Tribunal matters.

Arrange for supplementary training as required

The Tribunal will focus its training on the legislative changes in the Insurance Act dealing with the licensing of service providers and regulation of their business practices. There are also other changes which have been proposed but not yet enacted, and that may affect the need for additional training.

Strategy 2: Expand dialogue with members of the legal profession

Continue consultations with the Tribunal's Legal Advisory Committee

The Tribunal will continue its consultations with the Legal Advisory Committee on matters affecting hearing processes.

Strategy 3: Update Tribunal practices and procedures

Refine Service Standards

The Tribunal will continue to develop and refine service standards.

Review and update practices and procedures which may require revisions as a result of legislative changes for the licensing of service providers and regulation of their business practices

The Tribunal is reviewing new legislation and related regulations to determine how those may impact the Tribunal's practices. Its rules, forms and procedures will be reviewed for any necessary revisions.

Develop an in-house orientation program for new members

In-house training focusing on specific Tribunal practices will be provided to new members. The training supplements the mandatory adjudicator program provided by the Society of Ontario Adjudicators and Regulators, where new appointees learn the goals and principles of the administrative justice system and practical adjudication skills.

For more information about FSCO

Visit the Subscription Centre on our website to sign up for FSCO's various publications and RSS feeds. You'll be able to stay up-to-date on the latest information concerning FSCO's regulated sectors; you'll also get important sector updates, information and tips sent directly to your preferred email or RSS account.

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